# REWARD AND RETAIN

## Consider these succession planning tools to keep essential employees

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FARM JOURNAL Legacy Project
DEVELOPED BY FARM JOURNAL AND SUPPORTED BY DUPONT PIONEER

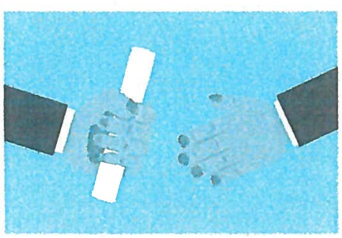
As you work through your farm's succession plan, don't forget a vital piece to the puzzle: your employees. Beyond sharing goals for management and ownership transitions, acknowledge contributions and develop growth paths.

"Not all farmers are blessed with genealogy," says Alan Richardson, a business adviser with Transition Point Business Advisors in West Des Moines, Iowa. "Therefore, key employees can play a critical role in the future of your operation."

First, determine which employees are imperative and have a desire to be involved in future success. Richardson suggests assigning your employees to these categories:

- **Key team members whose departure would hurt the business.** Involve them in every step—minus the financial details of the ownership transaction—so they have buy-in.
- **Hard-to-replace workers who might not be as germane as key employees but have good skill sets.** You will want to make time to consult with these workers as part of the succession-planning process.
- **General employees who could be replaced.** Inform these workers of the plan once it is finalized.

You can use this process to gauge employees' interest in future roles, Richardson says. "When the current generation retires or steps back, voids will be created for additional leadership," he says. "That creates an opportunity for non-family members to go into those roles." TP



### THESE TOOLS WILL HELP YOU SHARE THE WEALTH

Once you have key employees in place, the next challenge is to keep them. "There is a great amount of competition in finding qualified farm managers," says Jeffrey Fetter, an attorney with Scolaro, Fetter, Grizanti, McGough & King P.C. in Syracuse, N.Y. "You want to provide fair compensation and incentives for employees to work toward their own and the operation's future growth." After a few years of dedicated service, consider offering key employees some of these long-term benefits.

» **Non-Qualified Deferred Compensation Agreements:** These agreements are similar to qualified pensions, retirement plans and employee stock options but are designed for only a select group of employees. Team members can accrue a certain deferred benefit (based on a formula or straight dollar amounts), which will be paid out at a later date, typically upon retirement or at a certain employee age.

» **Phantom Ownership Or Equity:** This option compensates key employees based on the growth and profitability of the farm but does not give them actual ownership. You set the phantom ownership percentage and time period. For example, if key employees have 10% phantom ownership interest and the farm grows by $100,000 over five years, employees earn $10,000 in their accounts.

» **Profits Interest:** If your farm is set up as an LLC or partnership, you can provide key employees with a profits interest or the right to a certain percentage of the current or future profits and losses of the entity. In these plans, the employee becomes one of the partners. The arrangement is generally structured so that the growth is retained and the employee begins to build a capital account in the partnership.

» **Term Life Insurance:** Since these other options are financial rewards for staying with the business, you can couple them with a life insurance option, Fetter suggests. This is especially valuable to young employees, who often start out with a minimal amount. Yet they can show their family if there is an unexpected death, they will be protected. "It shows the farm owners really care," Fetter says.